

SAGINAW COUNTY ROAD COMMISSION
Saginaw, Michigan

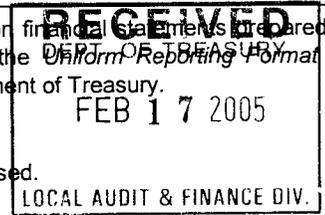
Financial Statements
September 30, 2004

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name SAGINAW COUNTY ROAD COMMISSION	County SAGINAW
Audit Date 9/30/04	Opinion Date 1/05/05	Date Accountant Report Submitted to State: 2/16/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.



We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- Yes No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- Yes No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- Yes No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- Yes No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- Yes No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- Yes No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- Yes No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- Yes No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- Yes No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) GARDNER, PROVEZANO, SCHAUMAN & THOMAS, P.C.			
Street Address 4855 STATE STREET	City SAGINAW	State MI	ZIP 48603
Accountant Signature <i>Heather A. Thomas</i> HEATHER A. THOMAS, CPA		Date 2/16/05	

Contents

	<u>Page Number</u>
Independent Auditor's Report	
Management's Discussion and Analysis	1
Basic Financial Statements	9
Financial Statements	
Statement of Net Assets and Governmental Fund Balance Sheet	10
Reconciliation of Governmental Fund Balance to Net Assets of Governmental Activities	11
Statement of Activities and Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance	12
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Fund to the Statement of Activities	13
Notes to Financial Statements	14
Required Supplemental Information	26
Budgetary Comparison Schedule	27
Additional Supplemental Information	28
Analysis of Revenues, Expenditures, and Changes in Fund Balance	29
Schedule of Federal Financial Awards	31
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <u>Government Auditing Standards</u>	32



Gardner | Provenzano Schauman & Thomas

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner
Giacamo Provenzano
James R. Schauman
Heather A. Thomas

INDEPENDENT AUDITOR'S REPORT

January 5, 2005

Members of the Board
of County Road Commissioners
of Saginaw County
Saginaw, Michigan

We have audited the accompanying financial statements of the governmental activities of the Saginaw County Road Commission, a component unit of Saginaw County, as of and for the year ended September 30, 2004, which collectively comprise the Road Commission's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Saginaw County Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the Saginaw County Road Commission as of September 30, 2004, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Members of the Board
of County Road Commissioners
of Saginaw County
Page Two

In accordance with Government Auditing Standards, we have also issued our report dated January 5, 2005, on our consideration of the Saginaw County Road Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information are not a required part of the financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The additional supplemental information is presented for purposes of additional analysis and is not a required part of financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements of Saginaw County Road Commission and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Gardner, Provencher, Schawman, & Thomas, P.C.

Certified Public Accountants

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

SAGINAW COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED SEPTEMBER 30, 2004

MANAGEMENT'S DISCUSSION & ANALYSIS

INTRODUCTION

The Saginaw County Road Commission (SCRC) is a special purpose government engaged in a single government program of road maintenance and construction in the County of Saginaw, Michigan. The adoption of GASB-34 in FY03 changed the SCRC financial statement presentation. In the past, governmental entities were required to report financial information only on the modified accrual accounting method. The modified accrual method of accounting focuses on current available resources and is referred to as governmental fund level accounting. Now, in addition to the governmental fund level information, governmental entities are also required to report financial information on the full accrual method of accounting. The full accrual method of accounting focuses on the entity as a whole and is referred to as government-wide level accounting. For SCRC, the most significant differences between the governmental fund statements and the government-wide statements relate to capital assets (buildings and equipment) and infrastructure (roads, bridges, and signals). Capital assets and infrastructure are not recognized as assets and are not capitalized at the governmental fund level.

As allowed for single purpose governments, the Statements of Net Assets and the Statement of Activities, the fund level financial statements and the government-wide financial statements have been combined and are presented on the same page.

The audited financial activities of SCRC are presented herein. These statements include the following:

- Statement of Net Assets and Governmental Fund Balance Sheet,
- Reconciliation of the Balance Sheet Fund Balance to the Statement of Net Assets,
- Statement of Activities and Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance, and
- Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities.

SAGINAW COUNTY ROAD COMMISSION
 MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
 FOR THE YEAR ENDED SEPTEMBER 30, 2004

CONDENSED FINANCIAL STATEMENTS

The following are condensed government-wide financial statements for SCRC.

Condensed Statement of Net Assets

	Assets	2004	2003
Current		\$ 8,772,227	7,933,849
Capital assets		133,753,803	129,019,958
Total Assets		<u>\$ 142,526,030</u>	<u>\$ 136,953,807</u>
	Liabilities		
Current		909,695	789,933
Long-term liabilities		666,231	652,859
Total Liabilities		<u>1,575,926</u>	<u>1,442,792</u>
	Net Assets		
Restricted		7,196,301	6,491,057
Invested in capital assets - net of related debt		133,753,803	129,019,958
Total Net Assets		<u>\$ 140,950,104</u>	<u>\$ 135,511,015</u>

Condensed Statement of Activities

	Revenue	2004	2005
Federal and State Revenue		\$ 17,723,902	15,870,870
Contributions from Local units		2,059,732	3,396,780
Other, including charges for services		1,832,424	391,900
Total Revenue		<u>21,616,058</u>	<u>19,659,550</u>
	Expenses		
Primary maintenance		3,384,911	2,784,498
Local maintenance		4,594,644	4,024,722
Depreciation		6,658,779	6,646,762
Administrative		922,891	939,967
Other		615,744	336,832
Total Expenses		<u>16,176,969</u>	<u>14,732,781</u>
Change In Net Assets		<u>\$ 5,439,089</u>	<u>\$ 4,926,769</u>

SAGINAW COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED SEPTEMBER 30, 2004

ADDITIONAL COMMENTS

The Total Net Assets increased by \$5,439,089 during FY2004. This reflects a greater investment in new capital assets, i.e., road improvements and equipment purchases, than the expenses associated with capital assets, such as depreciation.

During FY2004, the General Fund Balance increased by \$718,616 or 10% of the beginning General Fund Balance. The majority of this increase was due to an increase in MTF (Michigan Transportation Fund) received as a result of a change in Michigan law in September 2003 regarding registration fees.

Another major component of the increase is the postponement of many local projects from this fiscal year to next. Many of these projects were completed in the first quarter of the FY2005. These projects were scheduled to be completed during FY2004, but were delayed due to weather, changes in the scope of the project, and scheduling changes due to postponement of Federal/State projects discussed below.

The balance of the increase was from several items, none of which management considers significant.

Management believes that the General Fund Balance provides sufficient working capital to support future operations of SCRC.

BUDGET

The SCRC budget is prepared in accordance with state law using the modified accrual accounting basis. This is the same accounting basis used for the General Fund.

ORIGINAL BUDGET VERSUS AMENDED BUDGET

The 2004 budget was adopted in September 2003. The budget is reviewed periodically and amended as information becomes available or management's plans change. The amended budget revenue was decreased by approximately \$170,000. This decrease is due to a combination of the postponement of several projects (decrease of revenue) and the increase of MTF funds (increase of revenue):

MTF: The amount of MTF revenue was increased by approximately one million. When the original budget was approved in September of 2003, the law change had just been passed. The County Road Association was

SAGINAW COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED SEPTEMBER 30, 2004

ORIGINAL BUDGET VERSUS AMENDED BUDGET (continued)

not able to forecast how much of an increase each Road Commission would receive because it was difficult to assess the number of trailer plates registrations that would be purchased or renewed. Management decided not to include this increase in revenue in the original budget because it was so unpredictable.

State Street Road and (2) Bridges: This project was again delayed due to design issues, bidding issues, wetland issues, inclement weather including flooding, and an array of other issues. Also, \$400,000 was originally budgeted for wetland mitigation on this project. The DEQ has informed management that the wetland mitigation is not necessary.

Shattuck Road between Wieneke and Center: This project was originally estimated to be 100% complete by year end, but only 75% was actually completed. At the time of the original budget, the revenue for this project was allocated for FY04. Management later learned this would be an Advance Construction project. As a result, \$640,000 originally budgeted in FY04 as revenue was delayed to the FY05 budget. (The original \$640,000 was later increased by approximately \$85,000 due to the postponement of the Towerline Project.)

Canada Road over the Silver Creek: This project was delayed by various easement problems, which escalated to the point of going to court for condemnation proceedings. Due to this postponement, approximately 10% was completed during FY04.

Moorish Road and Bridge Projects: This project was budgeted originally, but removed in the spring of 2005, due to the loss of the Safety Grant monies.

Acceptance of Subdivisions: With the new GASB-34 rules, we are required to report the roads in subdivisions that are built by developers and then accepted by us for maintenance purposes as private contributions. At the beginning of the year, no data is available to inform us of how many subdivisions will be built over the course of the fiscal year; therefore no revenue of private contributions was budgeted.

SAGINAW COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED SEPTEMBER 30, 2004

ORIGINAL BUDGET VERSUS AMENDED BUDGET (continued)

Total budgeted expenditures increased from the original budget to the amended budget by approximately \$644,000. Because of the delay of the projects listed above, expenditures were moved from construction and heavy maintenance to maintenance. There was also an increase in the amount of capital outlay due to unexpected equipment failures and/or accidents, and the upgrading of computer equipment and software. The balance of the increase was from adjustments made to several individual expenditure items, none of which management considers significant.

AMENDED BUDGET VERSUS ACTUAL

The actual revenue was less than the final budgeted revenue by approximately \$390,000. This net amount was actually made up of several differences. The actual MTF revenue exceeded budget by approximately \$280,000. As discussed earlier, due to increased registration fees in the current year, it was difficult to estimate the MTF funds to be received as there was no historical upon which to base the budget. Actual Federal/State grants were under budget by approximately \$860,000. Approximately 75% of this decrease is due to the postponement of the State Street project and the other 25% is due to the postponement of the Canada Road project.

The balance of the difference is related to several revenue accounts; none of which management considers significant.

Total budgeted expenditures were less than actual expenditures by approximately \$2.7 million. Approximately \$1.1 million of this amount was attributed to the State Street project, which was completed later than expected. Approximately \$200,000 can be attributed to the delayed construction of Shattuck Road. Total maintenance expenditures were approximately \$1 million more than the budgeted amount. This is due to the material costs associated with the Townships requesting more brining, seal coating (and related sweeping operation) and gravel maintenance. This increase combined with the decrease in construction and heavy maintenance expenses resulted in an increased amount of distributive expenses being allocated to the maintenance category.

SAGINAW COUNTY ROAD COMMISSION
 MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
 FOR THE YEAR ENDED SEPTEMBER 30, 2004

CAPITAL ASSETS

SCRC has capital assets for full accrual accounting purposes, net of accumulated depreciation, of \$133,753,803, which is an increase of \$4,733,845. This information, which includes infrastructure, is summarized below.

	<u>2004</u>	<u>2003</u>
Land and improvements	\$ 28,821,809	\$ 27,128,820
Buildings	2,538,656	2,535,400
Road equipment	10,403,899	9,921,917
Other equipment	799,408	606,135
Infrastructure assets	<u>178,757,547</u>	<u>169,476,499</u>
Total Capital Assets	221,321,319	209,668,771
Accumulated Depreciation	<u>(87,567,516)</u>	<u>(80,648,813)</u>
Net Capital Assets	<u>\$ 133,753,803</u>	<u>\$ 129,019,958</u>

Additional information regarding capital assets is located in the notes to the financial statements.

Long-Term Debt

At year-end, the SCRC's long-term debt consisted of compensated absences (accumulated sick and vacation pay) in the amount of \$666,231.

OTHER

Management is not aware of any currently known facts, decisions, or conditions expected to have a significant effect on next year and beyond on the SCRC financial condition.

**CONTACTING THE SAGINAW COUNTY ROAD COMMISSION'S
 MANAGEMENT**

This financial report is intended to provide our citizens and customers with a general overview of the Saginaw County Road Commission's finances and to show the Saginaw County Road Commission's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the Director of Finance and Benefits at 3020 Sheridan Avenue, Saginaw, Michigan 48601.

BASIC FINANCIAL STATEMENTS

SAGINAW COUNTY ROAD COMMISSION
STATEMENT OF NET ASSETS AND
GOVERNMENTAL FUND BALANCE SHEET
FOR THE YEAR ENDED SEPTEMBER 30, 2004

ASSETS	General Fund	Adjustments	Statement of Net Assets
Cash	\$ 15,619	\$ -	\$ 15,619
Investment	4,365,944	-	4,365,944
Accounts Receivable			
State Transportation Department	2,379,930	-	2,379,930
County Road Commission	5,234	-	5,234
Sundry	197,905		197,905
Cities, Townships and Villages	1,004,600		1,004,600
Interest	17,498		17,498
Inventories			
Equipment materials and parts	91,318	-	91,318
Road materials	279,807	-	279,807
Prepaid expense	414,372	-	414,372
Capital assets, net of accumulated depreciation	-	133,753,803	133,753,803
Total Assets	<u>\$ 8,772,227</u>	<u>\$ 133,753,803</u>	<u>\$ 142,526,030</u>
LIABILITIES			
Accounts payable	\$ 497,413	\$ -	\$ 497,413
Accrued liabilities	136,663	-	136,663
Deposits	85,281	-	85,281
Due to State of Michigan	186,096	-	186,096
Deferred revenues	4,242	-	4,242
Compensated absences			
-due in more than one year	-	666,231	666,231
Total Liabilities	<u>909,695</u>	<u>666,231</u>	<u>1,575,926</u>
FUND BALANCE/NET ASSETS			
Fund Balances:			
Restricted for County Roads	7,862,532	-	-
Total Fund Balance	7,862,532	-	-
Total Liabilities and Fund Balance	<u>\$ 8,772,227</u>		
Net Assets:			
Invested in capital assets, net of related debt			133,753,803
Restricted for County Roads			7,196,301
Total Net Assets			<u>\$ 140,950,104</u>

See accompanying notes to the basic financial statements.

SAGINAW COUNTY ROAD COMMISSION
RECONCILIATION OF GOVERNMENTAL FUND BALANCE TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
SEPTEMBER 30, 2004

Total governmental fund balance	\$ 7,862,532
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	133,753,803
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds	(666,231)
Net Assets of Governmental Activities	<u>\$ 140,950,104</u>

See accompanying notes to the basic financial statements.

SAGINAW COUNTY ROAD COMMISSION
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND STATEMENT
OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2004

	General Fund	Adjustments	Statement of Activities
Revenue			
Transportation fund	\$14,287,221	\$ -	\$ 14,287,221
Critical Bridge	969,301	-	969,301
Federal grants	2,467,380	-	2,467,380
City and Township contributions	2,059,732	-	2,059,732
Charges for services	105,916	-	105,916
Other revenues	1,726,508	-	1,726,508
Total Revenue	<u>21,616,058</u>	<u>-</u>	<u>21,616,058</u>
Expenditures			
Primary construction	2,623,921	(2,623,921)	-
Local construction	1,405,077	(1,405,077)	-
Primary heavy maintenance	4,606,950	(4,606,950)	-
Primary maintenance	3,384,911	-	3,384,911
Local heavy maintenance	2,338,089	(2,338,089)	-
Local maintenance	4,594,644	-	4,594,644
Administrative	909,519	13,372	922,891
Net equipment expense	105,829	-	105,829
Net capital outlay			
Capital outlay	1,635,856	(1,635,856)	-
Depreciation	(1,217,269)	1,217,269	-
Depreciation	-	6,658,779	6,658,779
Drain assessment	249,213	-	249,213
Other Non-road	260,702	-	260,702
Total Expenditures	<u>20,897,442</u>	<u>(4,720,473)</u>	<u>16,176,969</u>
Excess of Revenue Over (Under) Expenditures	718,616	4,720,473	-
Change in Net Assets	-	-	5,439,089
Fund Balance/Net Assets - Beginning of Year,	7,143,916	-	135,511,015
Fund Balance/Net Assets - End of Year	<u>\$ 7,862,532</u>	<u>\$ -</u>	<u>\$ 140,950,104</u>

See accompanying notes to the basic financial statements.

SAGINAW COUNTY ROAD COMMISSION
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUND TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2004

Net Change in fund balance--total governmental funds \$ 718,616

Amounts reported for governmental activities in the statement
are different because:

Governmental funds report capital outlays as expenditures.

However, in the statement of activities, the cost of those
assets is allocated over their estimated useful lives as
depreciation expense. This is the amount by which capital
outlays exceeded depreciation in the current period. Equipment
retirement is recorded as an expenditure credit in governmental
funds, but not recorded as an expense in the statement of activities. 4,733,845

Some expenses reported in the statement of activities do not require
the use of current financial resources and therefore are not reported
as expenditures in governmental funds. (Increase in compensated
absences and decrease in interest expense) (13,372)

Change in net assets of governmental activities \$ 5,439,089

See accompanying notes to the basic financial statements.

NOTES TO FINANCIAL STATEMENTS

SAGINAW COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Saginaw County Road Commission's financial statements are prepared in accordance with United States generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with GASB pronouncements. The more significant accounting policies established in GAAP and used by the Commission are discussed below.

A. Reporting Entity

The Commission is governed by a three-member board of County Road Commissioners appointed by the Saginaw County Board of Commissioners. The Commission is a component unit of the Saginaw County and its financial statements are an integral part of the comprehensive annual financial report of the Saginaw County.

Based upon GASB Statement 14, which establishes criteria for determining the reporting entity, these financial statements present the Saginaw County Road Commission, a discretely presented component unit of Saginaw County, and include the Commission's general operations fund.

B. Basic Financial Statements – Government-Wide Statements

The statement of net assets and the statement of activities display information about the Commission as a whole. The purpose of these statements is to distinguish between activities that are governmental and those that are considered business-type activities. Currently, all Commission activity is considered governmental.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This approach is different from the manner in which the governmental fund financial statements are prepared. Therefore, a reconciliation is included to identify the relationship between the government-wide statements and the statements for the governmental fund.

This government-wide approach is focused more on the sustainability of the Commission as an entity and the change in the Commission's net assets from the current year's activities.

SAGINAW COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

C. Basic Financial Statement – Fund Financial Statements

The accounts of the Commission are organized on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The Commission's operations are accounted for in one fund, the general fund.

Fund financial statements generally report detailed information about the governmental entity. The focus of the governmental financial statements is on major funds rather than reporting all funds by type. The Commission has only one fund, the general fund.

The general fund is accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. According to this basis, revenues are recognized when they become measurable and available. Available is defined as being received shortly after year end. Expenditures are recognized in the period in which the fund liability is incurred, if measurable.

D. Inventories and Prepaid Items

Inventories are valued at the average unit cost method. Inventory items are charged to road construction, maintenance, equipment repairs and operations as they are used. Certain payments to vendors reflect costs applicable to future periods and are recorded as prepaid items.

E. Capital Assets and Depreciation

Capital assets purchased or acquired are reported at historic cost. Contributed assets are reported at fair market value when received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Capital assets are capitalized and depreciated according to State guidelines. Depreciation is computed on the sum-of-the-year's-digits methods for road equipment and straight-line method for all other capital assets over the following estimated useful lives:

	<u>Years</u>
Buildings	25 – 50
Road equipment	5 – 8
Other equipment	4 – 20
Infrastructure	5 – 50

SAGINAW COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

E. Capital Assets and Depreciation (continued)

GASB 34 requires the Commission to report and depreciate infrastructure assets in its government-wide statements effective the beginning of the current year. Infrastructure assets include roads, bridges, traffic signals, etc. Neither these assets nor related depreciation have historically been reported in the previously issued financial statements. The Commission has implemented the general provisions and the retroactive infrastructure reporting requirements of GASB 34 in the current year.

F. Budgets and Budgetary Accounting

The Road Commission follows these procedures in establishing the budgetary data reflected in the financial statements:

- A budget is adopted by the Board of County Road Commissioners of Saginaw County prior to October 1 of each year. The budget includes proposed expenditures and a means of financing them.
- The Saginaw County Road Commission approved budget is then submitted to the Saginaw County Board of Commissioners.
- The budget is prepared by the Road Commission on a basis consistent with U.S. generally accepted accounting principles and revised as deemed necessary during the year.
- Budgets are prepared using the modified accrual basis of accounting.
- The budgetary information presented has been amended throughout the year.
- The chief administrative officer is authorized to transfer up to 25% of a line item amount approved in the General Appropriations Act to another line item without prior approval, but subject to approval of the Board of County Road Commissioners at their next regular Board Meeting.

Law requires budget amendments as needed to prevent actual expenditures from exceeding those provided in the budget. Expenditures, which exceeded appropriations, are illustrated in required supplemental information.

SAGINAW COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

G. Liabilities

Accounts Payable

Accounts payable consist of items from which the Commission benefited during the current fiscal year but have not yet paid.

Accrued Expenses

Accrued expenses consist mainly of employee salaries, wages, and related payroll taxes.

Deferred Revenue

Deferred revenue consists of prepaid permits.

Compensated Absences

Consists of amounts due to employees for sick and vacation time.

Due to State of Michigan

Consists of amounts due to the State for the Commission's portion of projects.

Deposits

Performance deposits are amounts paid by contractors and held by the Commission until the projects are completed and inspected.

SAGINAW COUNTY ROAD COMMISSION
 NOTES TO FINANCIAL STATEMENTS

NOTE 2—CASH AND INVESTMENTS

The Road Commission is authorized by the State of Michigan to invest in the following:

- U.S. Treasury Bills, U.S. Treasury Notes, U.S. Treasury Bonds, and U.S. Treasury STRIPS
- TINTS-Treasury Interest Securities
- PRINS or STRIPS-Treasury Principal Securities
- Certificates of Deposit, Saving Deposit Receipt and Savings Accounts
- Commercial Paper-short term unsecured debt obligation issued by a bank holding company, finance company, utility or industrial company to raise short term cash
- Repurchase Agreements
- Banker's Acceptance
- Investment Pools

The FDIC insures up to \$100,000 per demand deposit, however, separately named accounts of a governmental entity may not necessarily be treated as separate deposits for purposes of applying the \$100,000 limit.

All special revenue fund investments are held in the name of the Saginaw County Treasurer; therefore, the insured amount of Road Commission investment is not determinable. Since the County has in excess of the \$100,000 limits, all Road Commission investments are presumed to be uninsured.

A summary of cash and investments follows:

	Total	Insured	Collateralized	Uninsured Uncollateralized
Cash	\$ 42,140	\$ 42,140	\$ -	\$ -
Investments held by County Treasurer	4,196,524	-	-	4,196,524
Total	<u>\$ 4,238,664</u>	<u>\$ 42,140</u>	<u>\$ -</u>	<u>\$ 4,196,524</u>

SAGINAW COUNTY ROAD COMMISSION
 NOTES TO FINANCIAL STATEMENTS

NOTE 3--CAPITAL ASSETS AND DEPRECIATION

Changes in capital assets for the year are as follows:

Governmental Activities	Balance 10/1/2003	Additions	Retirements	Balance 9/30/2004
Capital Assets Not Being Depreciated				
Land	\$ 618,385	\$ -	\$ -	\$ 618,385
Land and improvements, infrastructure	26,510,435	1,692,989	-	28,203,424
Total Land and improvements	<u>27,128,820</u>	<u>1,692,989</u>	<u>-</u>	<u>28,821,809</u>
Other Capital Assets				
Buildings and improvements	2,535,400	3,256	-	2,538,656
Road equipment	9,921,917	1,378,970	(896,988)	10,403,899
Other equipment	606,135	277,059	(83,786)	799,408
Infrastructure and improvements	169,476,499	9,281,048	-	178,757,547
Total Other Capital Assets	<u>182,539,951</u>	<u>10,940,333</u>	<u>(980,774)</u>	<u>192,499,510</u>
Total Capital Assets	<u>209,668,771</u>	<u>12,633,322</u>	<u>(980,774)</u>	<u>221,321,319</u>
Accumulated Depreciation				
Buildings and improvements	1,743,511	74,090	-	1,817,601
Road equipment	7,318,642	1,060,209	(872,793)	7,506,058
Other equipment	395,478	82,969	(84,551)	393,896
Infrastructure and improvements	71,191,182	6,658,779	-	77,849,961
Total Accumulated Depreciation	<u>80,648,813</u>	<u>7,876,047</u>	<u>(957,344)</u>	<u>87,567,516</u>
Total Net Capital Assets	<u>\$ 129,019,958</u>	<u>\$ 4,757,275</u>	<u>\$ (23,430)</u>	<u>\$ 133,753,803</u>

NOTE 4--LONG-TERM LIABILITIES

The Road Commission pays 65% of accrued unused sick leave at retirement. The amount due at September 30, 2004 is \$437,929. Additionally, up to twenty days vacation may be carried over to a succeeding year, subject to certain restrictions. Accumulated vacation payable at September 30, 2004 is \$228,302. Following is a summary of long term liabilities for the year ended September 30, 2004:

	Balance 10/31/2003	Increase (reduction)	Balance 9/30/2004
Accrued compensated absences	\$ 652,859	\$ 13,372	\$ 666,231
Total	<u>\$ 652,859</u>	<u>\$ 13,372</u>	<u>\$ 666,231</u>

SAGINAW COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 5--UNEMPLOYMENT COMPENSATION

The Road Commission is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the Road Commission must reimburse the Michigan Employment Security Commission for all benefits charged against the Road Commission. There was unemployment expense of \$3,133 in 2004.

NOTE 6--PENSION PLAN

Plan Description

The Road Commission's defined benefit pension plan provides retirement, disability, and death benefits to plan members and beneficiaries. The Road Commission participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board, Act No. 427 of the Public Acts of 1984, as amended by 1996 PA 220, establishes and amends the benefit provisions of the participants in MERS. The fiscal year for the retirement plan ends December 31. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy

The union members of the plan are required to contribute at an actuarially determined rate; the current rate is 4.7% of annual covered payroll. The contribution requirements of the Road Commission are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members, if any, are established and may be amended by the Road Commission depending on the MERS contribution program adopted by the Road Commission.

SAGINAW COUNTY ROAD COMMISSION
 NOTES TO FINANCIAL STATEMENTS

NOTE 6--PENSION PLAN (continued)

Annual Pension Cost

For the year ended September 30, 2004, the Road Commission's annual pension cost was \$178,458. The required contribution was \$118,458. The required contribution was determined as part of the December 31, 2002, actuarial valuation using the entry age actuarial cost method. The Road Commission chose to make voluntary contributions in the amount of \$60,000 for the fiscal year ended September 30, 2004. The actuarial assumptions included (a) an assumed rate of investment return which is used to discount liabilities and project what plan assets will earn, the net long-term investment yield is assumed to be 8%, (b) a mortality table projecting the number of employees who will die before retirement and the duration of benefit payments after retirement, (c) assumed retirement rates projected when employees will retire and commence receiving benefits, (d) a set of withdrawal and disability rates to estimate the number of employees who will leave the work force before retirement, (e) assumed rates of salary increases of 4.5% to project employees compensation in future years and (f) no specific price inflation assumption was needed for this valuation, the 4.5% wage inflation assumption would be consistent with a price inflation of 3% to 4%. The actuarial value of MERS assets was determined on a basis of a valuation method that assumes the fund earns the expected rate of return and includes an adjustment to reflect market value.

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability Entry Age (b)	Unfunded (Over Funded) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a)/(c)
12/31/2001	21,777,703	18,416,283	(3,361,420)	118%	3,455,449	0.0%
12/31/2002	21,397,622	19,339,097	(2,058,525)	111%	3,537,272	0.0%
12/31/2003	21,886,543	19,770,390	(2,116,153)	111%	3,433,645	0.0%

The Road Commission's actuarial accrued liability is over-funded as of December 31, 2003, the date of the last actuary report.

SAGINAW COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 7--RISK MANAGEMENT

The Road Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omission; injuries to employees; and natural disasters.

During the fiscal year, the Road Commission participated in the Michigan County Road Commission Self Insurance Pool (SIP), a public entity risk pool currently operating as a common risk management program for road commissions in the State of Michigan. The Road Commission pays an annual premium to SIP for its general insurance coverage. The SIP is self-sustaining through member premiums.

During the fiscal year, the Road Commission also participated in the County Road Association Self Insurance Fund (SIF) for its workers' compensation benefits. The SIF is also a common risk management program for road commissions in the State of Michigan and is self-sustaining through premiums. In the event of unusually high claims, both the SIP and the SIF have the authority to bill the member road commissions retro-actively.

The Road Commission continues to carry commercial insurance for other risks of loss, including employee health, Commission's bonds and accident insurance.

NOTE 8--LITIGATION

The Road Commission is a party to various legal proceedings, which normally occur in governmental operations for which the Road Commission carries commercial insurance.

SAGINAW COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 9--POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 6, the Saginaw County Road Commission provides post-employment health, dental and life insurance benefits, in accordance with Saginaw County Road Commission's union contract article 28, to all employees who retire from the Saginaw County Road Commission and qualify for benefits under MERS. Currently, 80 retirees' contracts meet those eligibility requirements. Coverage for non-union retirees is provided upon the discretion of management.

For those employees who terminate without retirement, healthcare benefits are terminated. At that time, the former employee has continuation rights to health insurance coverage under the COBRA law of 1985.

The Saginaw County Road Commission paid 100% of the cost for traditional health, dental and life insurance coverage for retirees, dependents and surviving spouses eligible to participate in the group plan. Certain retirees may elect to choose a PPO over traditional coverage. Those retirees paid for the cost of premium over traditional coverage. Expenditures for post-employment healthcare are recognized as claims or premiums as paid. During the year ended September 30, 2004, the cost of health, dental and life insurance benefits for retirees, dependents and surviving spouses was \$603,557.

REQUIRED SUPPLEMENTAL INFORMATION

SAGINAW COUNTY ROAD COMMISSION
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2004

	Original Budget	Final Budget	Actual	Actual Vs. Final Budget Favorable (Unfavorable)
Revenue				
Federal	\$ 5,505,943	\$ 4,121,074	\$ 3,283,634	\$ (837,440)
State	13,979,907	14,188,502	14,440,268	251,766
County				
City and Villages	-	-	18,721	18,721
Township	2,600,000	2,000,000	1,902,941	(97,059)
Other government	6,000	94,264	138,070	43,806
Interest	35,000	64,772	78,149	13,377
Charge for services	35,000	95,000	105,916	10,916
Miscellaneous	15,000	15,855	148,299	132,444
Gain on disposal	-	40,000	114,276	74,276
Private source contributions	-	1,386,595	1,385,784	(811)
Total Revenue	<u>22,176,850</u>	<u>22,006,062</u>	<u>21,616,058</u>	<u>(390,004)</u>
Expenditures				
Construction	5,112,131	5,767,192	4,028,998	1,738,194
Heavy maintenance	10,142,381	8,722,206	6,945,039	1,777,167
Maintenance	6,134,684	7,055,636	7,979,555	(923,919)
Administration	957,000	900,000	909,519	(9,519)
Capital Outlay-net	428,665	756,199	418,587	337,612
Equipment-net	(56,000)	(77,000)	105,829	(182,829)
Drain assessment	250,000	249,910	249,213	697
Other	-	239,425	260,702	(21,277)
Total Expenditures	<u>22,968,861</u>	<u>23,613,568</u>	<u>20,897,442</u>	<u>2,716,126</u>
Excess of Revenues Over (Under) Expenditures	(792,011)	(1,607,506)	718,616	2,326,122
Fund Balance, Beginning of Year,	7,143,916	7,143,916	7,143,916	-
Fund Balance, End of Year	<u>\$ 6,351,905</u>	<u>\$ 5,536,410</u>	<u>\$ 7,862,532</u>	<u>\$ 2,326,122</u>

**ADDITIONAL SUPPLEMENTAL
INFORMATION**

SAGINAW COUNTY ROAD COMMISSION
ANALYSIS OF REVENUE, EXPENDITURES, AND CHANGES IN
FUND BALANCE--SPECIAL REVENUE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2004

	Appropriated		County Roads	Total
	Primary Roads	Local Roads		
Revenues				
Federal				
Surface transportation program	2,170,518	134,421	-	2,304,939
Bridge	714,301	101,953	-	816,254
Other Rail Trail	-	-	162,441	162,441
Total federal	<u>2,884,819</u>	<u>236,374</u>	<u>162,441</u>	<u>3,283,634</u>
State				
Engineering	6,732	3,268	-	10,000
Urban road Allocation	1,290,116	673,978	-	1,964,094
Critical bridge	8,289,154	4,023,973	-	12,313,127
Total State	<u>133,931</u>	<u>19,116</u>	<u>-</u>	<u>153,047</u>
	<u>9,719,933</u>	<u>4,720,335</u>	<u>-</u>	<u>14,440,268</u>
County				
City and villages	-	18,721	-	18,721
Township	271,389	1,618,615	12,937	1,902,941
Other government	-	68,453	69,617	138,070
Total County	<u>271,389</u>	<u>1,705,789</u>	<u>82,554</u>	<u>2,059,732</u>
Other				
Interest and rents	40,839	16,530	20,780	78,149
Charges for services	10,592	68,845	26,479	105,916
Miscellaneous	-	-	148,299	148,299
Gain (loss) equipment disposals	39,398	72,746	2,132	114,276
Private source contributions	3,360	1,382,424	-	1,385,784
Total Other	<u>94,189</u>	<u>1,540,545</u>	<u>197,690</u>	<u>1,832,424</u>
Total Revenues	<u>\$ 12,970,330</u>	<u>\$ 8,203,043</u>	<u>\$ 442,685</u>	<u>\$ 21,616,058</u>

See independent auditor's report on supplementary information.

SAGINAW COUNTY ROAD COMMISSION
ANALYSIS OF REVENUE, EXPENDITURES, AND CHANGES IN
FUND BALANCE--SPECIAL REVENUE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2004

	Appropriated		County Roads	Total
	Primary Roads	Local Roads		
Expenditures				
Construction	2,623,921	1,405,077	-	4,028,998
Heavy maintenance	4,606,950	2,338,089	-	6,945,039
Maintenance	3,384,911	4,594,644	-	7,979,555
Other				
Administration	509,416	400,103	-	909,519
Equipment	1,217,134	1,883,502	143,853	3,244,489
Less: equipment rental	(1,177,438)	(1,822,068)	(139,154)	(3,138,660)
Capital outlay	817,928	-	817,928	1,635,856
Less: depreciation credits and retirements	(419,667)	(774,885)	(22,717)	(1,217,269)
Drain assessment	62,303	186,910	-	249,213
Other Non-road	-	-	260,702	260,702
Total other	<u>1,009,676</u>	<u>(126,438)</u>	<u>1,060,612</u>	<u>1,943,850</u>
Total expenditures	<u>11,625,458</u>	<u>8,211,372</u>	<u>1,060,612</u>	<u>20,897,442</u>
Excess of revenue over (under) expenditures	1,344,872	(8,329)	(617,927)	718,616
Other financing sources (uses)				
Optional transfer	(1,000,000)	1,000,000	-	-
Fund Balance, Beginning	3,904,185	1,580,291	1,659,440	7,143,916
Fund Balance, Ending	<u>\$ 4,249,057</u>	<u>\$ 2,571,962</u>	<u>\$ 1,041,513</u>	<u>\$ 7,862,532</u>

SAGINAW COUNTY ROAD COMMISSION
 SCHEDULE OF FEDERAL FINANCIAL AWARDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2004

Federal Grantor/Pass Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Number	Federal Expenditures
U. S. Department of Transportation Highway Research, Planning and Construction			
<u>Michigan Department of Transportation</u>	20.205		
		78319A	\$ 134,420
		53531A	282,852
		50191	1,490,143
		59816A	232,920
		59817A	481,382
		56634A	32,215
		59818A	56,367
		59820A	13,371
		73985A	197,523
		73986A	200,000
		Non-Road	162,441
			<u>\$ 3,283,634</u>

Note: Federal financial assistance, received under the highway planning and construction program, in the amount of \$3,283,634 was administered by the State of Michigan. The Road Commission has no responsibilities regarding fiscal or compliance controls over such assistance.

See independent auditor's report on supplementary information.



**Gardner | Provenzano
Schauman & Thomas**

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner
Giacamo Provenzano
James R. Schauman
Heather A. Thomas

**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
REQUIRED BY GOVERNMENT AUDITING STANDARDS**

January 5, 2005

Members of the Board
of County Road Commissioners
of Saginaw County
Saginaw, Michigan

We have audited the financial statements of the governmental activities of Saginaw County Road Commission, a component unit of Saginaw County, as of and for the year ended September 30, 2004, which collectively comprise the Saginaw County Road Commission's basic financial statements, and have issued our report thereon dated January 5, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Saginaw County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Members of the Board
of County Road Commissioners
of Saginaw County
Saginaw, Michigan
Page Two
January 5, 2005

Compliance

As part of obtaining reasonable assurance about whether Saginaw County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended for the information of management and the Board of County Road Commissioners. However, this report is a matter of public record and its distribution is not limited.

Saudner, Provenzano, Schauman & Thomas, P.C.

Certified Public Accountants



Gardner | Provenzano
Schauman & Thomas

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner
Giacamo Provenzano
James R. Schauman
Heather A. Thomas

January 5, 2005

Members of the Board
of County Road Commissioners
of Saginaw County
Saginaw, Michigan

In planning and performing our audit of the financial statements of Saginaw County Road Commission for the year ended September 30, 2004 we considered the Road Commission's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of a matter that is an opportunity for improving operating efficiency. This letter summarizes our comment and suggestion concerning this matter.

Road Materials Inventory

While interviewing employees in regard to their knowledge of any fraud or misappropriation of assets, it came to our attention that there may be a problem with theft from the road materials inventory yard.

Inventories should be reasonably safeguarded to protect them from loss. We recommend that fences or partitions be installed, at least around the Saginaw inventory yard, and be kept locked. In addition, a specific employee should be assigned responsibility for seeing that entry is not gained or inventory removed from the yard without proper authorization such as a signed pass or requisitions.

The preceding comment and recommendations are intended solely for the information and use of management and others within the organization and should not be used by anyone other than these specified parties. We will review the status of these comments during our next audit engagement. We have already discussed this comment and suggestions with the Management, and we will be pleased to discuss them in further detail at your convenience.

Very truly yours,

Gardner, Provenzano, Schauman and Thomas, P.C.

Gardner, Provenzano, Schauman and Thomas, P.C.